



The \$260 Million Dollar Question:

**Will the State Automated
Child Support System
(SACCS) ever **really** work?**

AN ADDENDUM



**PREPARED BY THE STAFF OF:
Assembly Committee on
Televising the Assembly
and Information Technology**

**Honorable
Elaine White Alquist, Chair**

ADDENDUM

"Our information technology projects have a history of being problematic . . . The line is being drawn. It takes courage to highlight and acknowledge the mistakes of the past. Is it an embarrassment? The real embarrassment would be if we didn't do anything about it. "

**- John Thomas Flynn, Chief Information Officer,
Department of Information Technology, November 16, 1997**

On April 30, 1997, at the request of Assemblywoman Elaine White Alquist, the chair of the Assembly Committee on Information Technology, committee staff released a report on the progress and problems of California's Statewide Automated Child Support System (SACSS). At that time, SACSS -the largest and most expensive state-run, single-unit information technology project in the nation - was deemed virtually "unusable" by most of the 23 counties in which it had been deployed, and its scheduled expansion to other counties was suspended indefinitely.

Since then, nothing has changed and everything has changed with SACSS. Despite four legislative oversight hearings, an ongoing audit by the Bureau of State Audits, a critical report from the Little Hoover Commission, a vote of "no-confidence" from the state's independent consultant, formal threats of legal action from the State to the vendor, and numerous media accounts of the problem-plagued system, SACSS remains a system at serious risk. Not only have the defects in the system not been corrected, but it also could be argued that the performance of SACSS has actually worsened, leading to increasing dissatisfaction among users. Where SACSS was installed in 23 counties by November of last year, only 11 counties are using the full SACSS application at the present. What's worse, the vendor and the State are in complete disagreement as to the current status, schedule and budget of SACSS.

On the other hand, there have been significant developments in the SACSS saga since April. For example, the State of California is now in formal noncompliance with the federal mandates of the Family Support Act of 1988 and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which required all states to develop a child support enforcement system automation plan for federal certification by October 1, 1997. Current law requires the U.S. Department of Health and Human Services to respond to a state's notice of noncompliance on or soon after December 31, 1997 by withholding the respective state's Temporary Assistance for Needy Families (TANF) and child support monies, pending appeal. For California, that would amount to an unthinkable fiscal sanction of more than \$3.7 billion. Fortunately, at the request of U.S. Rep. Howard Berman (D-CA) and the entire California Congressional delegation, U.S. Rep. Clay Shaw (R-FL), the chair of the Human Services Subcommittee of the authorizing committee, has indicated a willingness to introduce legislation at the beginning of next year which would dramatically mitigate the federal penalty.

From the State's perspective, the sun seems to have already set on SACSS. Ever since the project's rollout was abruptly halted in January, litigation has appeared inevitable. Under the leadership of the Department of Information Technology (DOIT), the State has been gradually exhausting all available legal remedies with the vendor. This is highlighted by the State's letter dated August 28, 1997, in which the State demanded that the vendor "correct all deficiencies in the SACSS system which are capable of being corrected" within 45 days. An Executive Committee comprised of representatives of both the State and the vendor has been working around the clock to "fix the current SACSS problems or find an alternative solution."

On October 20, 1997, DOIT Chief Information Officer John Thomas Flynn explained that State's legal position to the Assembly Committee on Information Technology as follows: "If we determine that the contract has breached and that Lockheed is unwilling to correct the project, we have an obligation to

protect the state's interest in court. Litigation is always unfortunate. But I believe that the state has gone the extra mile to fix this situation."

No amount of legal maneuvering can solve the fundamental problems of SACSS, primarily because there are so many of them. In fact, a February report by the state's independent consultant identified 1,400 remaining technical problems. As with most of the state's information technology (IT) breakdowns, the flaws of SACSS seem to be rooted in outmoded corporate paradigms. For example, Silicon Valley companies now tend to view major system integration projects according to the "holy trinity" of high-tech prioritization: functionality, schedule, and budget. In the case of SACSS, there was no prioritization; therefore, the vendor had nowhere to turn when the project ran into trouble. Ultimately, SACSS did not meet cost or schedule projections, nor has it been fully functional in any of the user counties.

At this point, it is unclear whether the vendor or the state agencies have a viable plan for the successful statewide implementation of SACSS. There have been several options presented to bring the system into compliance with federal mandates. One is to implement an updated, more user-friendly version of the current SACSS system. Another is to take existing county systems and develop an interactive framework that would link them together. Yet another is to take well-functioning independent county systems and use them as models for other counties. Under any scenario, neither the vendor nor the managing agencies have been able to accurately assess how much time and tax dollars it would take to bring the State into compliance or to install a fully-functional system that will fit the needs of the users for whom it was designed.

In addition, the State has two alternative options: 1) terminate the SACSS program being used by 11 counties and start over, or 2) correct the remaining problems in the 11 counties as a temporary measure and initiate the alternative procurement process for a new statewide system. Whatever the State chooses, it needs to be careful not to repeat the mistakes of SACSS.

On October 20, 1997, Mary Winkley, a Senior Fiscal and Policy Analyst for the Legislative Analyst's Office (LAO), presented a nine-point checklist entitled "What Steps Can Be Taken to Improve How the State Implements Major System Integration Projects?" at a hearing of the Assembly Committee on Information Technology, which included:

- The contract should be performance-based, specifying a desired outcome.
- Where appropriate, the contract should "modularize," or divide, the desired outcome into smaller, more manageable projects.
- The contract should require the vendor to share in the financial risk, including the issuance of a letter of credit.
- The contract should allow payment to the vendor only upon acceptance of deliverables.
- The contract and resulting project should be managed by qualified, experienced personnel.

At that hearing, Mr. Flynn of DOIT agreed with the LAO recommendations for future system integration projects. He indicated that the "Risk Assessment Model," or RAM, developed and implemented by DOIT is similar to the LAO report. "We have a very structured oversight process that initially involves the documentation of risk on an individual project," he said.

When questioned about the issue of accountability for SACSS, Mr. Flynn stated that SB 1 (Alquist), which created DOIT effective January 1, 1996, "clearly spells out that project management is the responsibility of program agencies and their project managers. However, the Department of Information Technology is responsible for all oversight on those projects."

Legislative Oversight of SACSS since April 30, 1997

- May 5, 1997 - This special oversight hearing of the Assembly Committee on Information Technology was the first policy review of SACSS. Mr. Bohart of HWDC admitted that there were problems with the system and that there was no timetable in place for correcting its flaws. Ms. Alquist, the Committee's chair, recommended to the Assembly Budget Committee that funding for SACSS be withheld pending resolution of the policy issues involved.
- May 20, 1997- The Joint Legislative Audit Committee unanimously approved a request from the five Members of the Assembly Committee on Information Technology for a performance audit of SACSS.
- June 10, 1997 - Senate Budget and Assembly Information Technology Committees held a joint hearing on SACSS. The hearing focused on the ongoing problems with the SACSS system. Ms. Alquist requested that, by next hearing, agencies have a solution in hand for correcting the system's flaws. Mr. Bohart of HWDC stated that the agencies would have an answer in 30 days. Because of the Legislative recess and the end-of-Session schedule, Ms. Alquist allowed the agencies until September to craft a viable solution.
- Following her hearing, Ms. Alquist made a similar request before the Budget Conference Committee. The Conference Committee agreed with her request, stating that no additional funding will go to HWDC for the SACSS project until the managing agencies show dramatic improvement in project oversight and management.
- August 28, 1997 - The Department of Social Services (DSS) sent a notice of cure opportunity to Lockheed, requiring a response within 45 days. The letter outlined numerous deficiencies with SACSS, stating that Lockheed "has not performed its obligations under our agreement, even though the state has given [Lockheed] numerous opportunities to rectify its contractual breaches." DSS cited several reasons for the problems, including "inadequate staffing, inadequate design for the system, inadequate i software coding, and problems with subcontractors, particularly the company that wrote much of the software code for SACSS." The complete response arrived after the 45-day cure period has expired.
- September 25, 1997 - The Senate Budget and Assembly Information Technology Committees held a joint hearing on SACSS. Mr. Thompson stated that he would not grant additional funding until DOIT comes up with a better answer for the problems that continue to plague the SACSS system.
- October 17, 1997 - Lockheed forwarded all of remaining documents to DOIT which set forth its plan for correcting the deficiencies in the SACSS system.
- October 20, 1997 - The Assembly Committee on Information Technology held another special oversight hearing on SACSS. Mr. Flynn of DOIT stated he had not had adequate time to review the response from Lockheed, but promised that "we can look for results in a very, very short time." Ms. Alquist demanded a final decision on the fate of SACSS by November 20, 1997.

Chronology

Statewide Automated Child Support System (SACSS)

Date	Action/Event
October 13, 1988	Family Support Act of 1988 passed by federal government requires automated system.
September 26, 1989	SB 1380 of 1989 (Chapter 804) implements federal law.
September 17, 1990	Feasibility Study Report (FSR). Project estimated to cost \$99,183,361
March 22, 1991 Approved on April 11, 1991	Revised Feasibility Study Report. Increase of \$52,851,439 Assesses economic impact since Department of Social Services forgot to include the \$50 passthrough on previous cost/benefit analysis. Project estimated to cost \$152,034,800.
April 20, 1992 Approved May 5, 1992	Special Project Report: Extends life of project by two years. Project cost is now \$164,937,800.
December 7, 1992	Award of Contract to Lockheed. Bid - \$73,997,882
October 28, 1993 Partially Approved December 23, 1993	Special Project Report (SPR) - Increase of \$28,179,331. <ul style="list-style-type: none"> • Extends deadline of project to year 2000. Caseloads increased. • Underscoped and inadvertently omitted tasks including forgetting to interface with other state government systems and the L.A. County system specified in federal letter to state in April 1991. • Enhancements and advances in technology. • Health and Welfare Agency Data Center (HWDC), instead of vendor, will be providing the network. Project cost is \$173,538,468.
Submitted March 28, 1994	SPR- No change in project cost. Allow Department of Social Services to use HWDC to provide network (contractor was to provide it previously).
May 12, 1994	The Governor issues Executive Order W-886-94 establishing the Governor's Task Force on Information Technology.
May 16, 1994	The Assembly Committee on Transportation investigates the failure of the Department of Motor Vehicles' (DMV) data replacement project that cost tax payers more than \$50 million.
June 16, 1994	The Legislative Analyst Office (LAO) issues a report entitled "Information Technology: An Important Tool for a More Cost-Effective Government" citing sever fundamental problems preventing the state from realizing a better return on its investment in Information Technology.
Submitted July 18, 1994 Approved August 15, 1994	Transfer of network responsibility from Lockheed to HWDC (net savings of \$ 100,000). Change in acquisition of workstation process for counties from 1) lease to purchase to get better quality PCs, 2) during implementation to the calendar quarter prior to implementation in that county, and 3) vendor to outside Lockheed contract.
September 22, 1994	Governor's Task Force releases report entitled "Task Force on Government Technology Policy and Procurement".
December 7, 1994	The State Auditor releases report entitled "The State Needs to Reengineer Its Management of Information Technology".
December 5, 1994	Senator Alquist introduces SB 1 to create a new Department of Information Technology with broad oversight of all state IT projects.
April 13, 1995	Governor creates the Governor's Office of Technology

June, 1995	Governor's Council on Information Technology publishes "Getting Results" report.
September 12, 1995	Governor appoints John Thomas Flynn as Chief Information Officer
September 18, 1995	Sierra County pilot implemented.
September 30, 1995	First federal deadline for statewide automation (later extended)
October 2, 1995	Plumas County conversion began.
October 3, 1995	Governor signs SB 1 (Alquist - Chapter 508, Statutes of 1995).
October 30, 1995	<p>SPR submitted to Department of Finance, increasing project costs by \$108.2 million and delaying final deployment until September 30, 1997. Increases attributed to:</p> <ul style="list-style-type: none"> • Technical staffing needs during pilot period. • Increased HWDC network costs by an additional \$606,000 from \$210,000. • Increased on-going network costs based on relocating 30% of current sites, establishing 10 new county sites, and ongoing communications with L.A. County's central node. • Caseload and staffing increases • Off-site storage requirements, disaster backup offsite, and technical support • Additional \$ 18.9 million to Lockheed to pay for: <ul style="list-style-type: none"> • Additional workstations and hardware upgrades • Reduced lease terms for PCs, printers, and other equipment • Modified data conversion plan • Expanded User Acceptance Testing Period • Revised training schedule <p>Project is now estimated to cost \$260,497,475.</p>
January 1, 1996	Department of Information Technology officially created.
December 12, 1996	HWDC amends contract increasing estimated costs to \$298,509,542.
February 28, 1997	Independent oversight consultant, Logicon, issues an assessment report on the \$260 million SACSS citing over 1,400 defects and calling the system insufficient and inadequate.
April 30, 1997	The Assembly Information Technology Committee issues report:: "The \$260 Million Question: Will SACSS Ever Really Work? "
May 5, 1997	First special oversight hearing of the Assembly Information Technology Committee. Assemblywoman Elaine White Alquist, Chair, Assembly Information Technology Committee, requests from Assembly Budget Committee, Sub 5, that SACSS funding be withheld pending resolution of the policy issues involved.
May 6, 1997	The Assembly Information Technology Committee investigates SACSS.
May 8, 1997	Request sent to the Joint Legislative Audit Committee Committee (JLAC) by the Assembly Information Technology Committee that JLAC approves a comprehensive performance audit of SACSS.
May 13, 1997	Little Hoover Commission issues report entitled "Enforcing Child Support: Parental Duty, Public Priority", recommending that the State should prepare for the possibility that SACSS will never function properly.
May 20, 1997	The Joint Legislative Audit Committee unanimously votes to approve request submitted by the Assembly Information Technology Committee for a performance audit of SACSS.
June 10, 1997	Second special oversight hearing of the Assembly Information Technology Committee. Assemblywoman Elaine White Alquist, Chair, requests that

	DOIT have a solution in hand for SACSS problem within 30 days. Ms. Alquist Makes a similar request before the Assembly Budget Conference Committee. The Committee concurred, stating that no additional funding would go to HWDC for SACSS until the managing agencies demonstrated dramatic Improvement in project oversight and management.
August 28, 1997	Department of Social Services sends "cure" letter to Lockheed, requiring a Response in 45 days. Letter outlines many deficiencies with SACSS, stating that Lockheed "has not performed its obligations under our agreement, even though the state has given [Lockheed] numerous opportunities to rectify its contractual breaches."
September 25, 1997	Senate Budget Committee and the Assembly Information Technology Committees hold joint hearing on SACSS. Senator Thompson states he will withhold project funding until solution is reached.
October 1, 1997	Second and final federal deadline for statewide automation
October 17, 1997	Lockheed forwards all of remaining documents to DOIT setting out plan for fixing SACSS.
October 20, 1997	Assembly Information Technology Committee holds hearing on SACSS and requests final decision on Lockheed's compliance by November 20, 1997. DOIT states they have not had adequate time to review the documentation, but states that "we can look for results in a very, very short time." Ms. Alquist demands a final decision on Lockheed's compliance by November 20, 1997.
November 20, 1997	Assembly Information Technology Committee SACSS hearing scheduled.
December 31, 1997	Federal deadline for states in noncompliance of federal mandate to present a plan for certification or post a notice of noncompliance

ASSEMBLY COMMITTEE ON INFORMATION TECHNOLOGY
ASSEMBLYWOMAN ELAINE WHITE ALQUIST, CHAIR

***"Strengthening Support for California 's Children,
Reducing the Risk for California's Taxpayers"***

A Checklist for Successful State Child Support Automation Contracts:

- The contract should be performance-based, specifying a desired outcome.
- The contract should "modularize," or divide, the desired outcome into smaller, more manageable projects where appropriate.
- The contract should require the vendor to share in the financial risk, including the issuance of a letter of credit.
- The contract should allow payment to the vendor only upon acceptance of deliverables.
- The contract and resulting project should be managed by qualified, experienced personnel.

STATE OF CALIFORNIA

HEALTH and WELFARE AGENCY DATA CENTER

1651 Alhambra Boulevard
Sacramento, California 95816
(916) 739-7500

November 19, 1997

Mr. Richard F. Hartung
Executive Vice President
Lockheed Martin IMS
2535 Capitol Oaks Drive
Suite 400
Sacramento, California 95833

Re: Letter of Understanding

Dear Mr. Hartung:

The State of California (the "State") and Lockheed Martin IMS ("LMIMS") are in a dispute concerning performance under the Statewide Automated Child Support System ("SACSS") contract dated December 8, 1992, as amended (the "Contract"). This letter will confirm the agreement between the parties about the process they will pursue for resolving this dispute.

1. Termination of Contract. The parties hereby agree to terminate the Contract, effective as of 12:01 a.m., November 20, 1997. The State and LMIMS waive any contractual requirement of notice of termination. Notwithstanding the above-referenced termination and except as specifically set forth in this letter of understanding, each party reserves all claims, causes of action and defenses of any kind whatsoever that each has or may have under the Contract or at law or in equity, or that either party could have asserted prior to the termination of the Contract. Such claims include but are not limited to claims based on the right of a party to terminate for cause or for any other reason, claims for damages including but not limited to LMIMS's close-down costs resulting from termination, and claims or rescission.

2. Transition Services. Certain counties (the "Counties") currently rely on SACSS to carry out their child support enforcement responsibilities. Pursuant to Par. 39.a of the Contract, LMIMS will provide equipment, software and services to the State and to Counties as described in Attachment A to this letter, which is incorporated herein by this reference, in order to facilitate the orderly, non-disrupted business continuation of the State and County child support enforcement programs and the transfer to the State of operation and control of SACSS data processing system equipment, software and services. In return, the State agrees to pay for these services in the amounts identified in Attachment A, on a monthly basis. Each party acknowledges that transition requirements may change with the passage of time, and each party agrees to continue to cooperate with the other hereafter in order to achieve the purposes of Par. 39.a. This transition shall be for a six month period, subject to termination by the State upon 30 days prior written notice, provided however, that the State may not issue such a notice of termination earlier than 60 days

from the effective date of this letter of understanding. The funding for these transition services, as described in Attachment A, is available in the Budget Act of 1997, Items 5180-141-0001, 5180-141-0890 and 4130-001-0632, and the State will encumber such funding by November 20, 1997.

3. Release of Restrictive Covenants. Except as provided in this paragraph, subsequent to the transition period, LMIMS agrees that it will and hereby does forever release any subcontractors who provided or agreed to provide services under the Contract from any covenant or restriction prohibiting the subcontractor from contracting directly with the State to provide services contemplated under the Contract. Notwithstanding any limitation on the State's contracting with LMIMS subcontractors during the transition period, LMIMS ; agrees that, at any time subsequent to 90 days after the effective date of this letter of understanding, the State may contract directly with any such subcontractors to provide services which are not being provided by LMIMS as part of the transition services described in Attachment A.

4. Alternative Dispute Resolution. The parties agree that all claims or controversies arising out of or related to the Contract shall be resolved exclusively under Court reference proceedings pursuant to California Code of Civil Procedure Section 638(1), and the reference agreement, a copy of which is Attachment B to this letter, is incorporated herein. The parties agree that all claims procedures required by the Contract or statute as a prerequisite to the institution of an action or proceeding have been exhausted and that either party may initiate litigation with regard to the Contract in accordance with the procedures in Attachment B. The parties agree that any applicable statute of limitations is tolled from the date of the execution of this letter of understanding for a period of four years

5. Response to LMIMS Request for Adequate Assurance. The State and LMIMS agree that no further responses to requests for adequate assurances by the State or LMIMS are required in view of the termination of the Contract as provided in this letter of understanding.

6. Approval. The rights and obligations of the parties under this agreement are conditioned on the approval of this agreement by the Department of General Services by November 20, 1997.

7. Authority. Both the State and LMIMS have full power and authority to enter into this letter of understanding, and the person signing the letter on behalf of each has been properly authorized and empowered to enter into the letter of understanding and to bind each party to each and every one of the terms, conditions and obligations set forth herein.

8. Integration. This letter, including Attachment A and Attachment B, contains the entire agreement of the parties regarding the subject matter described herein, and all other promises, representations, understandings, arrangements and prior agreements related thereto are merged herein and superseded hereby. The provisions of this letter may not (e amended, except by a written document signed by the party against whom enforcement of any amendment is sought.

If you agree with the terms described above, please so indicate by signing the enclosed copy of this letter in the space provided and returning it to me.

Very truly yours,

RUSSELL BOHART
DIRECTOR
HEALTH AND WELFARE AGENCY DATA CENTER
THE STATE OF CALIFORNIA

AGREED TO THIS 19TH
DAY OF NOVEMBER, 1997

LOCKHEED MARTIN IMS
BY RICHARD F. HARTUNG
EXECUTIVE VICE PRESIDENT

The Future of the Child Support Automation Project in California

Presented To:

Assembly Information Technology Committee
Hon. Elaine Alquist, Chair

November 20, 1997 - LEGISLATIVE ANALYST'S OFFICE

Factors to Consider

Options	Meet Current Child Support Enforcement Plan and TANF Requirements	Meet Statewide Requirement	Utilize Existing Hardware Investment	Allow Increase in Opportunity for Project Success by Employing Industry Best Practices	Allow State to Develop New Contract With Fiscal Safeguards
Continue with existing contract	✓	✓	✓		
Expand scope of existing contract	Doesn't but could.	✓	✓		
Limit or cancel existing contract	Doesn't but could.	✓	Partial		✓
State responsible for migrating existing system(s) to additional counties	Doesn't but could.	✓	✓ (potentially)		
Vendor responsible for migrating existing system(s) to additional counties	Doesn't but could.	✓	✓ (potentially)	✓	✓

Factors That the Legislature Should Consider

- **Meet Child Support Enforcement Program and TANF Requirements.** The federal government requires states to file a plan (Title IV-D) with the federal government outlining how it will meet the child support enforcement program requirements. A plan for automation is to be included in the larger plan to implement the program. Absent an approved plan, the federal government will

find California to be noncompliant and will suspend all federal payments for the state's child support enforcement program and may eliminate TANF funding.

- **Statewideness.** The federal government required one system to be deployed statewide if the state wanted enhanced federal funding. The federal government has the regulatory authority to allow multiple systems to be deployed if the state is willing to completely pay for the project and the project meets all other requirements. The enhanced federal funding share was 90 percent of one-time costs. Any expenses incurred after October 1997 are reimbursed at the normal federal sharing ratio of 67 percent.
- **Use Existing Investment in Hardware.** Approximately \$10 million was spent on personal computers and printers in 1995. Some processing hardware has also been leased. Some or all of this investment may be used on a future child support automation project.
- **Reduce Project Risk.** Increase ability for project to succeed by employing industry best practices. These include:
 - When soliciting bids, the *department should express the outcome desired*, not specify a technology which is outdated by the time it is deployed. Expressing outcome desired rather than the technical solution expected enables the vendor to propose the solution, and be held accountable if it does not work. Additionally, it allows the latest technology to be employed when the system is actually deployed.
 - California should *not transfer a system from another jurisdiction* as a foundation because California's size and complexity presents significant problems which the system may not be able to address. Transferring a system designed for a centralized state-run program has created difficulties for California's decentralized process in the 58 counties. Additionally, technology which may serve smaller jurisdictions cannot always be scaled up to serve a substantially larger caseload.
 - Large projects should be broken into *smaller, more easily managed projects*. Smaller projects facilitate communication, problem resolution, management of the project and contract, and deployment.
 - State should *hold vendors to the terms of the contract, including schedule and deliverables, from the beginning*. Inability to meet the terms of the contract is a sign that there are problems that need to be resolved. The more slippage there is, the more the problems will affect the ability to successfully deploy the project. Additionally, if a vendor knows it will be held responsible, it is more likely to be focused on providing resolution.
 - Departments should *not deploy a system to additional users* if it is not working. Deploying a nonfunctioning system simply to meet deadlines creates additional problems and frustrations. A broken system in a few counties will simply be a broken system in more counties.
 - State should develop a *formal, objective process* to evaluate whether a project should be suspended or terminated. A panel of experienced information technology personnel either from private industry or public service could be used for such an evaluation.

- ***Develop New Contract With More Fiscal Safeguards.*** The more safeguards to the state in the contract, the greater the chance the state will be able to recover monies spent should the project not succeed as envisioned.
- Contracts should require the ***vendor to share in the financial loss*** due to the system not being successfully deployed. Consequential damages, which are damages the state could assess as the consequence of a failure by the vendor to fulfill contractual obligations, would increase financial risk to the vendor. The more risk there is to the vendor, the greater the chance of capturing the attention of senior management earlier on in the project. If senior management are made aware of project difficulties earlier in the process, the problems can be resolved earlier.
- State should consider changing terms of contracts for major system integration projects to ***require a letter of credit, rather than a performance bond***. Should the project fail to be delivered, a letter of credit is easier to collect than a performance bond. Although a letter of credit adds cost to the vendor's proposal, it requires the vendor to share in the risk to a higher degree than a performance bond as it can be seized immediately.
- Contracts should allow ***payment to vendor only upon acceptance*** of deliverables. Paying a vendor before a system has been successfully completed does not require the vendor to take as much risk as waiting until the system is completed. If the vendor must wait, its senior management will pay more attention to the project to ensure little is done to jeopardize the payment at the end of the project.

November 20, 1997 - LEGISLATIVE ANALYST'S OFFICE